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Kaifu Visits Washington

Prime Minister Toshiki Kaifu and President Bush appear to have forged a new friendship during the Japanese leader's September 1-2 visit to Washington, but even their rapport may not dissipate building trade tensions. The two leaders, who conferred with each other on a first-name basis, concurred that greater bilateral coordination on international issues is necessary. However, they remained divided over which economic and other factors continue to fuel the U.S.-Japan trade deficit. This disagreement, coming on the eve of the structural impediments initiative talks that began September 4 in Tokyo, may foreshadow rough sledding in bilateral trade negotiations (see note in this issue).

treaty simply as a negative inheritance from the LDP government, I'm doubtful that it can survive the harsh realities of international politics," the Komeito leader declared.

Mr. Yonezawa emphasized that an opposition coalition government would not necessarily mean a "JSP government." "A coalition platform . . . is something that [the opposition parties] create anew to win public support," the DSP leader stated. "We're dissatisfied that the JSP seems to be confusing what it wants to do under a JSP government with its coalition policies." Mr. Yonezawa added that his party has not been hoodwinked by the JSP's recent change in position. The Socialists will face problems if they accept the SDF and the security treaty merely in order to strike a compromise with the other opposition parties, he stated.

In addition to differences with the DSP and Komeito, Ms. Doi appears to have divisions within her own ranks -- a development that could hamper the JSP's hopes for the realization of a lower house electoral victory. Masahi Ishibashi, former JSP chairman, announced he will retire from politics to protest his party's decision to field an unprecedented 180 candidates in the lower house elections. Mr. Ishibashi, who led the JSP when it incurred major losses in both Diet houses in the 1986 elections, contends that, given Japan's multi-seat electoral districts, such a strategy actually will result in greater Socialist losses since it will force some JSP candidates to run against each other in certain districts. By forcing JSP candidates to campaign against other opposition party candidates as well, this approach will exacerbate further relations with the DSP and Komeito.

Despite Mr. Ishibashi's dramatic announcement, Ms. Doi remains committed to launching the JSP's 180-candidate juggernaut. She insists that fielding this many candidates is a critical first step to wresting control of the government from the LDP. Japan's five major labor unions have endorsed this approach and urged the JSP to launch talks with the DSP and Komeito to solidify an opposition coalition before lower house elections formally are called.

In this regard, Hiroshi Mitsuzuka, former trade minister and chairman of the LDP policy affairs research council, indicated August 31 that it would be desirable to dissolve the lower house following approval of the FY 1990 budget during an ordinary Diet session to be convened at yearend. The Kaifu administration and the LDP favor convening a 60- to 70-day extraordinary Diet session October 2 or 3 to consider a package of political reforms as well as revisions to the controversial consumption tax. At JEI press time, the ruling party had yet to reach an agreement with the opposition parties on convening the extraordinary session.

Barbara Wanner

Initial FY 1990 Budget Requests Up

Initial funding requests of Y35.1 trillion ($250.7 billion at Y140=$1.00) by all Japanese agencies for the year beginning April 1, 1990 show a rise in discretionary central government spending of 3 percent over the initial budget for FY 1989. Due to sharply higher debt service costs and other mandatory expenditures, however, the preliminary overall general account budget is

up 11.4 percent to Y67.3 trillion ($480.7 billion). The government's Fiscal Investment and Loan Program, a second capital budget, shows strong growth of 27.5 percent at this point in the budget process and totals just over Y41.1 trillion ($293.6 billion). Despite these increases, the government sees public spending as having a neutral impact on the economy.

From an overall standpoint the biggest gainer in the initial fiscal plan for FY 1990 is debt service (see Table 1). The 37.5 percent jump in the cost of servicing the outstanding government debt is misleading, however. The actual costs of interest payments will remain about the same as this fiscal year, currently estimated at approximately Y11.1 trillion ($79.3 billion). In line with some new laws the Ministry of Finance will allocate Y3.2 trillion ($22.9 billion) in FY 1990 to the debt consolidation fund to redeem some of Tokyo's huge outstanding debt, which is projected to reach Y161 trillion ($1.2 trillion) by the end of March 1990. Finance also is counting on using an anticipated general account budget surplus for FY 1989 of approximately Y1.8 trillion ($12.9 billion) to help reduce the debt, further swelling the debt service category.

Table 1: Initial FY 1990 Fiscal Plan
(in billions of yen)

	Initial FY 1989 Budget	FY 1990 Request	Change
General Account			
Discretionary Expenditures	Y34,080.5	Y35,110.1	3.0%
Defense	3,919.8	4,168.8	6.4
Official Development Assistance	756.0	833.3	10.3
Debt Service	11,664.9	16,044.7	37.5
Transfers to Local Governments	13,368.8	14,869.8	11.2
Social Infrastructure	1,300.0	1,300.0	0.0
Total	60,414.2	67,324.7	11.4
Fiscal Investment and Loan Program	32,270.5	41,150.0	27.5
Public Works	26,340.5	30,350.0	15.2

Sustained economic growth has benefited government revenues at the national and the local levels. Tokyo is required by law to transfer 32 percent of the receipts from three national taxes -- personal and corporate income taxes and liquor taxes -- and varying shares of the remaining revenues from commodity taxes and tobacco taxes to local governments. These transfers are expected to grow a sharp 11.2 percent next fiscal year. As it has for the past several years MOF will devote Y1.3 trillion ($9.[illegible] billion) of the proceeds of the sale of government-held shares of Nippon Telegraph and Telephone Corp. to social infrastructure projects.

Continuing the tight-budget pattern of previous years, spending on certain areas will be increased in FY 1990 at the expense of others (see Table 2). According to a report to the cabinet submitted by the Finance Ministry, official development assistance in the general account budget will expand 10.3 percent to Y833.3 billion ($6 billion) as several ministries implement environmentally oriented aid programs. Combined with a Y651.5 billion ($4.7 billion)

request for the Overseas Economic Cooperation Fund and a Y1.2 trillion ($8.6 billion) request for the Export-Import Bank of Japan (two major lending institutions whose budgets are included in the Fiscal Investment and Loan Program), Japan is making a good start on its commitment to recycle $65 billion to debt-burdened developing countries (see JEI Report No. 28B, July 21, 1989).

Table 2: Initial FY 1990 Budget Requests by Agency
(in billions of yen)

	Initial FY 1989 Budget	FY 1990 Request	Change
Imperial Household	Y5.0	Y3.6	-27.4%
Diet	89.0	90.6	1.7
Court Administration	248.8	252.2	1.3
Board of Audit	11.4	11.6	1.8
Cabinet	12.2	12.4	1.2
Prime Minister's Office	7,528.9	7,818.9	3.9
of which: Defense Agency	3,919.8	4,168.8	6.4
Ministry of Justice	429.7	443.3	3.2
Ministry of Foreign Affairs	466.6	534.6	14.6
Ministry of Finance	1,395.0	1,403.1	0.6
Ministry of Education	4,637.9	4,718.8	1.7
Ministry of Health	10,837.2	11,357.6	4.8
Ministry of Agriculture, Forestry and Fisheries	2,541.4	2,534.1	-0.3
Ministry of International Trade and Industry	695.3	739.7	6.4
Ministry of Transportation	813.6	811.2	-0.3
Ministry of Posts and Telecommunications	25.6	26.0	1.7
Ministry of Labor	487.9	486.9	-0.2
Ministry of Construction	3,750.5	3,759.9	0.3
Ministry of Home Affairs	104.4	105.6	1.1
Total	34,080.5	35,110.1	3.0

Another area of continued higher spending in FY 1990 is defense; the Japan Defense Agency is asking for a 6.4 percent gain to complete the five-year defense plan started in FY 1986. The Ground Self-Defense Force wants a 6.4 percent increase to Y1.5 trillion ($10.7 billion) for, among other things, 30 Type-90 tanks, 73 armored personnel carriers, 50 artillery pieces, 32 SSM-1 surface-to-ship guided missiles and 10 AH-1S Apache antitank helicopters. The Maritime Self-Defense Force has requested Y91.8 billion ($656 million), a 1.1 percent gain, for a second Aegis destroyer, a submarine and 11 P3-C Orion anti-submarine patrol planes and other equipment. The Air Self-Defense Force hopes to buy 11 F-15J Eagle fighters, two CH-47J tranport helicopters, two E-2C early warning planes and more Patriot surface-to-air missiles with its Y1.1 trillion ($7.9 billion) request. Another Y43.6 billion ($311.4 million) is sought to pay Japanese workers at U.S. bases on top of Y166 billion ($1.2 billion) requested to help pay for the direct costs of maintaining U.S. forces in Japan. Spending

for military research and development, including the FSX fighter, is penciled in at a 13.2 percent gain to Y104.2 billion ($744.3 million).

Protecting the global environment appears to be a favored theme in the budget for the upcoming fiscal year, with most agencies proposing some projects in this area. The Ministry of International Trade and Industry is asking for Y6 billion ($42.9 million) for research into global warming and development of chlorofluorocarbon substitutes, along with Y290 million ($2.1 million) for domestic and international environmental research. The Science and Technology Agency has requested Y5.6 billion ($40 million) for an earth observation satellite and other projects. The Environment Agency tripled its request for conservation-related activities to Y2.4 billion ($17.1 million). And the Ministry of Transportation is requesting Y188 million ($1.3 million) for research on global warming and air pollution.

These initial requests are only the second stage in the long budget process. From now until December MOF will negotiate with each agency and develop a budget for submission to the cabinet. Although the discretionary spending requests adhere to the cabinet's 3 percent growth ceiling, MOF surely will try to restrain spending wherever possible. In view of the ruling Liberal Democratic Party's weakened domestic political position, politically motivated budget changes are a strong possibility.

Jon Choy

Japanese Bank Giants To Merge

To Americans bank mergers scarcely count as news. At times, customers hardly assimilate a new name resulting from a merger before the bank combines again with another name change. But when two large Japanese commercial banks announced plans to merge August 29, the news was shocking. The linkup was the first significant bank merger in Japan since 1986 when Sumitomo Bank, Ltd. acquired Heiwa Sogo Bank, Ltd., a much smaller institution. The proposed merger, to become effective April 1, involves Mitsui Bank, Ltd. and Taiyo Kobe Bank, Ltd., both among the world's largest banks. It is the largest such combination in Japanese banking since 1973 when Taiyo Kobe itself was formed from the merger of Taiyo Bank, Ltd. and Kobe Bank, Ltd.

The new bank will be the second largest in the world (and in Japan) as measured by assets after Dai-Ichi Kangyo Bank, Ltd., itself the result of a 1971 merger. The new banking concern will have $369.7 billion in assets, making it by this measure almost twice the size of Citicorp, the largest U.S. banking institution. Citicorp, however, has more than twice the employees of the proposed entity.

Analysts found the news of the Mitsui-Taiyo Kobe tie-up startling for several reasons. Although bank mergers have been infrequent in Japan, many experts had expected the pace to pick up as deregulation of Japan's financial markets forces banks to purchase other banks as a means of acquiring the assets, such as additional branches and retail customers, necessary to prosper in the new conditions. But most analysts thought the pairings would be between big institutions and struggling small regional banks valuable to giants in need of customers and branches. Another possibility was mergers among smaller